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Co-op Chat: Your obligation for area coverage.

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

May 20, 1946

To all REA Co-op Officials:

Let me recall to you the statement I made in the "Rural Electrification News" of September 1945: "If anyone in an area can have electricity, then everyone in the area is entitled to it. That is part of the basic philosophy which animates REA. It is an implicit condition that goes with each REA loan."

There are good reasons why this should be so. In the first place, REA co-ops owe their existence to a Federal law whose purpose is to make electric energy available "to persons in rural areas who are not receiving central station service." This does not mean service only to those who can be reached most easily or with the least expense. It means all who can be served without destroying the co-op's ability to meet its loan repayments. It was in recognition of this principle that the Congress a year or two ago amended the Act to lower interest rates and increase the amortization period further.

In the second place, it must be recognized that an REA co-op differs from other rural co-ops, such as a creamery or elevator or purchasing co-op, in one very important respect. The typical farmers' co-op enjoys no territorial exclusiveness. Two or more co-op creameries can operate in the same area, and a farmer living anywhere in the area can make his own choice as to which co-op or commercial creamery he wants to patronize. But the farmer who is in need of electricity usually has only one possible source from which to get it, either a co-op or a commercial power company, depending on where his farm is located. There are, of course, a few exceptions in case of borderline location. Since duplication of lines would be wholly impractical and uneconomical, the public interest demands that the system serving any given rural area must be ready to serve all people in that area who want electricity.

I know that there are very few REA co-op directors or managers who are unwilling to recognize and accept this obligation. But unless every REA borrower shows a firm determination to carry out the area coverage principle as rapidly as conditions will permit, the entire rural electrification program may suffer because of the action, or rather lack of action, of a few borrowers.

This is clearly indicated by the nature of the discussion in the attached excerpts from the recent hearings before a Congressional committee. I can well understand that the Congress may wish to consider mandatory provisions concerning area-wide service if any REA borrowers should fail to recognize voluntarily the respective

2-Co-op Chat-May 20, 1946

obligations which the loan of Federal funds on highly favorable terms places upon them as a matter of the national welfare. But neither you co-op officials nor we in REA would welcome such a step as a desirable solution of the problem. I said as much in my testimony before the Committee. And I am sure that with the help of every one of you the REA borrowers can and will demonstrate to the satisfaction of the Congress that they are backing the area coverage principle one hundred percent.

I hope you will take the time to read the few pages of excerpts attached. They represent only a small fraction of the REA testimony which forms a part of the 2,000 page printed document on the hearings -- an indication of the thoroughness usually exercised by Congressional committees in acquainting themselves with the pros and cons of proposed appropriations.

It seems to me that all REA borrowers should work conscientiously toward full area coverage as a matter of course. If you think so too, let me urge you to do what you can, at board, district, and state-wide meetings, to convince the few reluctant directors and managers that their active support of this principle is essential.

Sincerely,

Claude R. Wickard

Administrator

Attachment

Discussion of Area-wide Service

Excerpts from the hearings on the Agriculture Department Appropriation Bill for 1947 before the Subcommittee of the Committee on Appropriations of the House of Representatives in February 1946.

The following statement by the Chairman of the Subcommittee, the Honorable Malcolm C. Tarver, is indicative of the concern of REA's friends in Congress. It was made on the day before the REA statement was presented to the Subcommittee:

I have noted this about some of these REA cooperatives: After they become organized and get on a paying basis and making money, somehow there is evidence of disinclination to do anything for that farmer out here who has not had any service, where the chances of his being able to furnish them with added revenue are of a doubtful nature...

And some of them are adopting the same policies that the power companies adopted prior to the enactment of the Rural Electrification Act. The whole idea of the thing, to my way of thinking, is to extend rural electric service to people who, while they may not be able to pay enough for the kind of service they will require initially to represent a profit on the investment made in building the lines to them, yet may be expected to step up their farm production and their utilization of electrical energy to the point where, in a few years, they will be customers who will be paying a profit on the service which has been accorded them...

I think that has been the history of REA: That where the service has been accorded it has resulted in an increase in production and, therefore, a need on the part of those farms for additional electrical power, and what may have seemed at the start to have been a doubtful investment on the part of the REA cooperative has turned out in most cases to be all right. It has paid good dividends. So that these cooperatives that are doing well ought to be spurred up in some way, in my opinion, to furnish service to the farmers where the immediate income will not be considerable...

After presentation of the REA statement, the problem was discussed in some detail, as follows:

LACK OF INTEREST IN CERTAIN COOPERATIVES TO EXTEND SERVICES

MR. TARVER. Mr. Wickard, we have had some evidence in past years, with reference to a part of your problem which I think may be briefly summarized in this way:

Some of these REA cooperatives which have been organized have developed a very profitable business. Really most of them appear to be in pretty good financial status but in some cases they have developed an unusually profitable business and they have sometimes a lack of interest in farmers outside of their cooperative whose needs for electric service if service were accorded them now would be initially very small, so small as not to constitute an attractive investment for the cooperative to extend its lines to serve them. Of course, I think the whole program has been founded upon the theory that with electric service the production of farms and the need of farms for electric current will be increased and that the building of extensions, or not, should not be based entirely upon what income results immediately from such extensions.

I think that was one of the reasons why REA was established, because the power companies, a great many of them at least, evinced an attitude of simply skimming off the cream of service and taking no particular interest in the needs of the consumers whose initial requirements would be small. Now what can you do with a cooperative which evinces a disposition of that type? That is, it is satisfied with its present business and does not want to make extensions to farmers where their present power requirements would be small and would not be productive of very large revenue?

MR. WICKARD. Well, Judge Tarver, let me first say I heartily agree with you. I do not approve of that attitude. I think we should not go on the past records of consumption as the basis for establishing a standard for what might be consumed in the future. I think one reason why the REA came into existence is because the private utilities would not visualize how much electricity the farmers were going to use, and that is perhaps why they are as active as they now are in trying to get the cream off of what is left. You asked what we can do.

MR. TARVER. First, do you find that some of the cooperatives do evince a disposition of the type I described?

MR. WICKARD. I do; we have found instances such as you have described in various sections of the country. After a fashion, they might be doing a little cream skimming or at least they are satisfied with the membership or the consumption that they now have.

MR. TARVER. Having gotten the service themselves they do not care so much about the other fellow.

MR. WICKARD. Perhaps they have the idea of paying off the debt as quickly as possible so that they will get electricity at cost and then the rates will go down.

Now, we think Congress had the objective of seeing that all people who could be served in a feasible manner should get central station service. That is why Congress adopted various measures and has been so generous in its appropriations.

We only lend money to people who come to us with applications for a loan and we cannot force anybody to come to us with an application for a loan. I do not think Congress would want us to do that...

MR. TARVER. Is it possible that there could be some amendment to the statute under which your work is conducted so as to require that REA cooperatives give some weight to your request that they should consider the right of such people to service, when the cooperative has refused to accord such service?

MR. WICKARD. Well, I think perhaps that is a subject for study. However, I always like to think of this program, Judge, as one which came from the demand of the people and it should not be forced upon them.

I like to think of these cooperatives and these public utility districts as being autonomous in running their business and not being subject to severe regulation. Nevertheless when there are people being neglected either because of misunderstanding or selfish motives, responsible people or perhaps the Congress might consider some method of calling that situation to their attention. By this means it could be done more forcibly than we can under present legislation.

MR. TARVER. I hope you may develop some type of legislation which would enable you to exercise some sort of authority over situations of that kind.

MR. PLUMLY. Mr. Chairman, may I interject one thought? If your cooperatives will not do it, why not allow the public utilities in that area to give the service?

MR. WICKARD. We are many times forced to tell the person who makes inquiry of us that REA cooperatives do not have lines in an area or that a cooperative could not serve them because they are in an area now being served by some private utility and they must take up the matter with their State commission.

MR. TARVER. Of course, that question does not arise as a matter of conflict between the REA cooperative and the utilities? It arises where a cooperative has already built lines to serve the cream of an agricultural territory, and over to one side, perhaps, is an area where farms are located which will not be accorded service simply because to do so will not insure adequate revenue to the cooperative; those people cannot get service from a public utility and they cannot get service from the cooperative, for the cooperative sometimes seems to think it is desirable, as you say, to pay off its debt as soon as it can and lower the rates to its own members; and does not sometimes show any interest in trying to serve these other folks. Therefore, there ought to be, it seems to me, some authority somewhere which could investigate cases of that kind and take some corrective action in connection with them.

I hope you will give some study to the matter with a view to submitting to the Committee having jurisdiction suggestions as to how the existing statutes might be amended so as to take care of that problem.

I think I shall defer any further questions until we begin examination of the estimates.

Mr. Sheppard, have you any questions?

MR. SHEPPARD. I was very much interested in what Judge Tarver brought out, and the complaints you are now receiving are a pattern of the general psychology that caused the birth of the REA.

I would naturally assume that those organizations that are now functioning and functioning under the Organic Act presently, that it would be difficult to reach them through an amendment where they have a sustaining contract during their lifetime?

MR. WICKARD. That is right.

MR. SHEPPARD. But other contracts that might be drawn up might be considered upon the basis of service within certain minimum areas of some central point of distribution within the cooperatives' area of operation. At least it would be very interesting because if something like that is not done it might have a tendency to put the REA in somewhat of an unfavorable light, psychologically speaking.

MR. WICKARD. I think there is that danger.

May I make this comment?

MR. SHEPPARD. Surely.

MR. WICKARD. We have, during the past year, been doing a lot of talking about what we call area coverage planning. You know I referred to it in my prepared statement.

Personally I think it is more desirable to do this thing by education than it would be to try to do it under some act of Congress. As I have said, I do think a lot of persons in some areas are unserved because people in some of the cooperatives do not fully understand the objectives of the program or they have a selfish motive. We are doing a lot of work getting these people to see that they must not be guilty in any sense of the same thing that the private utilities have been guilty of and that they have no business taking out the heart of the territory and letting the rest of the people go without the service.

Now we also point out that they do not fully envisage the future of rural electrification; that there is going to be greater use of electricity in future years than we have seen in the past.

Lower power rates are going into effect all over the country, especially where there are hydroelectric developments, and even fuel-power generation rates are going down.

We point out to them the lower interest rate and the longer amortization period and we just say we do not think there is any good reason why they should not be planning to extend service to everybody in the project area. The great majority of them in the last year or two have recognized and accepted this viewpoint. Their desire to extend service on an area coverage basis is perhaps why we have this unprecedented demand for REA funds.

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MR. WHITTEN. The question has been raised both by the chairman and Mr. Sheppard, too, I think, of high import that something should be done to see that the REA cooperatives themselves do not fall into the same practice that the utility companies did, and that is skimming the cream, so to speak. We all are interested in handling the matter, if it can be done, so that you will control it, so far as you are able, and they will be required to give an area coverage. Once they borrow money from you and set up a cooperative, you cannot go back and require them to do things within that field, but if they have to come

back to you on any extensions of the line, then you would have again control in which you could make them give an area coverage in that extension?

MR. WICKARD. Yes, sir.

MR. WHITTEN. Before you would permit them to spend their own money or an additional loan to extend the line?

MR. WICKARD. That is right. However, the trouble is that the instances of which we really are critical are those that do not involve the use of further REA funds, and we cannot add a new requirement to existing contracts.

MR. WHITTEN. That is true. I knew you would have a chance if they borrowed funds. I was trying to get to the point if they could use surplus funds, if they could do it themselves without referring it back to you.

MR. WICKARD. Most of the contracts require that we approve all construction which they undertake. If they do not submit their plans to us we might say that was in violation of our contract. If we could not get them to do it voluntarily we would have to foreclose to enforce the contract.

MR. WHITTEN. I do not think it is necessary. I doubt if it will ever reach that stage if you have a solvent cooperative. I do not think that you would actually have to carry it into a foreclosure of their mortgage. I think it is a matter that could be worked out between you, if you have such an agreement in your contract; and you state you do have in the average contract.

MR. WICKARD. We have in the average contract a provision requiring them to inform us of all plans that they have for construction and submit those to us for approval. Is that not right?

MR. BLACKBURN. That would normally be required in all cases if for no other reason than to make sure that the engineering design would fit in with the design of the part of the system that REA financed.

MR. WHITTEN. That is a sufficient reason to bring it to you perhaps, but then once it is brought to you I think there are many reasons for you insisting on the other proposition as well.

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MR. ANDERSEN. I have one further question. Is there a stated regulation on the part of REA to the effect that 2.5 meters is the limit beyond which the organizations can consider per mile for installation?

MR. WICKARD. No, sir.

MR. ANDERSEN. They must have at least 2.5?

MR. WICKARD. No, sir; there is no such regulation or rule that I know of.

MR. ANDERSEN. That regulation then is up to the individual cooperative?

MR. WICKARD. Yes, sir. However, what I was trying to say awhile ago was that when an application for funds comes to us we examine it carefully, and the loan is never made unless I myself am satisfied that that loan will be paid back. The number of consumers per mile is only one of the factors taken into consideration. The amount of electricity to be used per mile of line is perhaps more important than the number of consumers per mile. The whole system is financed by the sale of energy.

MR. ANDERSEN. I think, as do the other members of the committee from their remarks, that a certain amount of observation is necessary to see to it that the various cooperatives do not skim the cream, but that they do give full service in an area formation?

MR. WICKARD. Yes, sir.

MR. ANDERSEN. I have had many instances called to my attention of farmers desiring to be connected up who have been turned down simply on the premise that there is not enough meters per mile. I wonder if your organization could not use its influence to make the local cooperatives more generous in that regard.

MR. WICKARD. I want to say to you and to other members of the committee who have expressed the same interest, that we are glad to have your moral support in our efforts to get people who are in charge of these systems to see their obligation to their neighbors and to the Congress to make the service available where it is practicable and feasible to do so. I have often said to them that if we were going to grant a franchise to a utility to enter a city we would say, "You cannot use your own discretion about serving certain portions, you will have to make your service available to all." I think we should say that to the private utilities and to the cooperatives when they talk to us about serving the rural territories.

MR. ANDERSEN. I might say that in my home State of Minnesota I realize what it means to my neighbors. It is entirely along the same line that lately I have been arguing with the Post Office Department relative to changes in their particular routes. They claim that they have a definite point which they cannot go beyond unless there are a certain number of patrons per mile. That policy, I feel, they should change, and I hope that the REA does not become impregnated with that policy to the extent where they will keep any farmer within a reasonable distance from securing

the same service that is given and made possible to be received by others.

MR. WICKARD. I share your anxiety, and I want you to know that REA makes every effort to get people to see their obligations to serve people in their project areas. In the great majority of cases our borrowers realize their obligation to make service available to the largest possible number of people. However, at the present time, we cannot force people to borrow money from us to do the task. That is why I am so glad to have your moral support and backing.

MR. ANDERSEN. I think that you realize you have the moral support of this entire committee on this REA?

MR. WICKARD. On this particular issue I am more satisfied now than I was before.

MR. ANDERSEN. You also realize that it is up to us to see to it that everybody gets a fair break as far as possible.

MR. WICKARD. Yes, sir.

MR. ANDERSEN. That is all.

